

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Crystal Falls District Community Library	County Iron
Fiscal Year End 12/31/05	Opinion Date 05/05/06	Date Audit Report Submitted to State 05/23/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

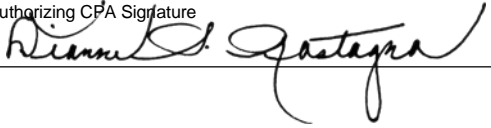
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	There were no issues to be noted.	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) DS Rostagno CPA P.C.		Telephone Number 906-265-1040	
Street Address 101 West Maple Street		City Iron River	State MI
		Zip 49935	
Authorizing CPA Signature 		Printed Name Dianne S. Rostagno, CPA	License Number A245771

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**Financial Report
With Supplemental Information
Prepared in Accordance with GASB 34**

December 31, 2005

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INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Board of Directors
Crystal Falls District Community Library
Crystal Falls, Michigan 49920

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the **Crystal Falls District Community Library**, as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Trustees, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

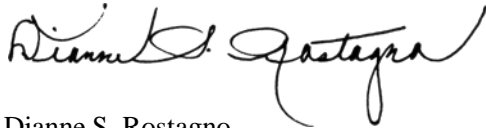
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the **Crystal Falls District Community Library** at December 31, 2005, and the respective changes in financial position thereof for the year ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 05, 2006 on our consideration of the **Crystal Falls District Community Library**'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The management's discussion and analysis on pages 7 through 13 and the budgetary comparison information are not required parts of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Crystal Falls District Community Library's** basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with a large, stylized initial "D".

Dianne S. Rostagno
DS ROSTAGNO CPA, P.C.

May 05, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Community Library

237 SUPERIOR AVENUE . CRYSTAL FALLS, MI 49920-1421

The management of the Crystal Falls District Community Library provides this narrative overview and analysis of the financial activities of the Library for the year ended December 31, 2005. As readers, you are encouraged to read this discussion and analysis in conjunction with the Library's financial statement information included in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Library are governmental funds.

Community Library

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Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the Library's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decision, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The Library maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and debt service fund, both of which are considered major funds.

The Library adopts an annual budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, and is included in the "Required Supplementary Information" section of this document.

Notes to the Financial Statements

Notes to the financial statements are included in the basic financial statements, and provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements.

Supplementary Information

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund as presented in the governmental fund financial statements.

Community Library

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Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the Library, assets exceeded liabilities by \$442,774 at December 31.

By far, the largest portion of the Library's net assets is its investment in capital assets (land, buildings, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending. Although the Library's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At December 31, 2005, the Library reported \$331,176 in capital assets net of related debt.

Summary of Net Assets

In a condensed format, the following is a summary of the Library's net assets at December 31, 2005 and 2004:

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
Current and other assets	\$111598	\$103010
Capital assets, net	<u>518411</u>	<u>535684</u>
Total Assets	630009	638694
Long-term liabilities	136801	175429
Other liabilities	<u>50434</u>	<u>52617</u>
Total Liabilities	187235	228046
Invested in capital assets, net of related debt	331176	309821
Designated	12423	9549
Reserved for debt service	4215	0
Unreserved, undesignated	<u>94960</u>	<u>91278</u>
Total Net Assets	\$442774	\$410648

For governmental activities, net assets increased by \$ 32,126 during the year.

Community Library

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Government-wide Financial Analysis (Continued)

The following represents the change in net assets for the Library's governmental funds for the years ended December 31, 2005 and 2004.

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
REVENUES:		
<u>Program Revenues</u>		
Charges for services	\$6000	\$6240
Operating grants and contributions	5459	2498
Capital grants and contributions	0	0
<u>General Revenues</u>		
Property taxes	146201	145654
Other taxes	4916	3587
Unrestricted grants	23641	22649
Other	<u>1680</u>	<u>1697</u>
Total Revenues	187897	182325
EXPENSES:		
Community service	119570	114370
Debt Service		
Interest and fees	11806	14803
Depreciation	<u>24395</u>	<u>24084</u>
Total Governmental Expenses	155771	153257
Increase (Decrease) in Net Assets	32126	29068
Net Assets – Beginning of Year	<u>410648</u>	<u>381580</u>
Net Assets – End of Year	<u>\$442774</u>	<u>\$410648</u>

Community Library

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Governmental Activities

Property taxes comprise \$146,201 or approximately 77 percent of total governmental revenues. Penal fines were \$19,545, or approximately 10 percent of total revenues.

The Library expensed \$155,771 on governmental programs and services. The largest expense category was incurred for Library administration, which totaled \$66,077, or approximately 42 percent of total expenditures. Of this amount, \$59,778 was paid directly for salaries and benefits.

Costs of providing direct Library services were \$35,711, or approximately 22 percent of total expenditures. Occupancy costs excluding debt service were \$15,646, or approximately 10 percent of total expenditures.

Final Analysis of the Governmental Funds

As previously noted, the Library uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the Library's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Library's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

The Library's governmental funds reported combined ending fund balances of \$ 111,598, of which \$94,960 is unreserved and is available for spending at the government's discretion. \$ 5,500 is designated for building, \$ 4,500 is designated for roof repair or replacement, and \$ 2,423 is designated for other purposes.

The Library's primary governmental fund is the general fund.

On the budgetary basis of accounting, the Library ended the fiscal year with revenues slightly higher than both the original and the final projections. Total expenditures were slightly lower than final budgeted amounts, but slightly higher than the original projection. At year-end, the fund balance was higher than both the original and the final amended budget projections.

Community Library

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Governmental Funds (Continued)

Expenditures – Budget vs. Actual for the Year Ended December 31, 2005

General Fund:

Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Actual and Original Budget	Expenditures Variance Actual and Final Budget
\$121,188	\$132,474	\$126,692	-\$5504	\$5782

Revenues – Budget vs. Actual for the Year Ended December 31, 2005

Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Actual and Original Budget	Revenues Variance Actual and Final Budget
\$115,450	\$115,450	\$133,248	\$17,798	\$17,798

General fund financial and budgetary highlights of the fiscal year include:

- * Property tax revenue exceeded original and final budgetary projections by \$4,322.
- * State aid was up slightly from the original and final amended budget, coming in at \$ 3,266 which is \$766 more than the original and final budgeted estimates of \$ 2,500.
- * Expenditures in total for the general fund were \$ 126,692, less than the final amended budget of \$132,474 and more than the original budget amount of \$121,188. This was due in part to books, videos, and periodicals costs coming in less than the final budgeted amount by \$2,261. Memberships and dues actual expenditures were below both the final and original budgeted amounts. Capital outlay exceeded the original budget allocation by \$2,122.

Community Library

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Capital Asset and Debt Administration

Capital Assets

The Library's investment in capital assets, net of accumulated depreciation, for its governmental activities as of December 31, 2005 and 2004, were \$ 518,411 and \$ 535,684, respectively. The investment in capital assets includes land, buildings, furniture and fixtures, computers, and other equipment. The Library has no infrastructure assets.

There were no major capital events during the current year.

Long-term debt

As of December 31, the Library had total debt outstanding of \$ 187,235. Of this amount, \$ 50,434 is due and payable within the next 12 months.

Priorities and Accomplishments

The following areas highlight the Library's priorities and accomplishments:

- ✓ The Library added DVD's and books on CD to its services.
- ✓ During 2005, the Library began offering special programs to all home-schoolers in Iron County. This has proven to be a very successful program.
- ✓ During 2005 the Library had 23,687 visitors.
- ✓ Adult materials loaned were 18,176, a slight decrease from 19,044 in 2004.
- ✓ Student materials loaned were 11,295, very close to statistics for 2004.
- ✓ Reference usage in 2005 was 1,792.
- ✓ In 2005, the Library purchased 1,178 new books, 52 music CD's, 101 new audio recordings, recordings on VHS and DVD, and 82 books on CD.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to:

Crystal Falls District Community Library
237 Superior Avenue
Crystal Falls, Michigan 49920

BASIC FINANCIAL STATEMENTS

CRYSTAL FALLS DISTRICT COMUNITY LIBRARY
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Statement of Net Assets

December 31, 2005

<u>ASSETS</u>	<u>Governmental Activities</u>
<u>Current Assets</u>	
Cash and Cash Equivalents (Note C)	\$ 111,598
Total Current Assets	111,598
<u>Noncurrent Assets</u>	
Capital Assets, Net (Note H)	518,411
Total Noncurrent Assets	518,411
 TOTAL ASSETS	 \$ 630,009
 <u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ -
Accrued Payroll Taxes	-
Bonds/Notes Payable, Due within one year (Note I)	50,434
Total Current Liabilities	50,434
<u>Noncurrent Liabilities</u>	
Bonds/Notes Payable (Note I)	136,801
Total Noncurrent Liabilities	136,801
 TOTAL LIABILITIES	 \$ 187,235
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	331,176
Designated	12,423
Reserved for Debt Service	4,215
Unreserved, Undesignated	94,960
 TOTAL NET ASSETS	 \$ 442,774

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

Statement of Activities

Year Ended December 31, 2005

Functions/Programs	<u>Expenses</u>	<u>PROGRAM REVENUES</u>		<u>Net(Expense)</u> <u>Revenue</u> <u>and Changes in</u> <u>Net Assets</u>
		<u>Charges</u> <u>for Services</u>	<u>Operating</u> <u>Grants &</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Primary Government - Community Services				
Administration	\$ 66,077	\$ -	\$ -	\$ (67,144)
Occupancy	15,646		935	(14,711)
Special Programs	2,136			(2,136)
Library Services	35,711	6,000	4,524	(25,187)
Interest on Long-Term Debt	11,806			(11,806)
Intergovernmental	-			-
Depreciation (Unallocated)	<u>24,395</u>			<u>(24,395)</u>
Total Governmental Activities	155,771	6,000	5,459	(144,312)
 General Revenues:				
Taxes:				
Property taxes levied for general operations				93,322
Property taxes levied for debt services				52,879
Other taxes				4,916
State Aid				3,266
Penal Fines				19,545
Renaissance Zone				830
Interest and Investment Earnings				<u>1,680</u>
Total General Revenues				176,438
Change in Net Assets				32,126
Net Assets - Beginning of year				<u>410,648</u>
Net Assets - End of year				<u>\$ 442,774</u>

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

Balance Sheet

Governmental Funds

December 31, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Investments (Note C)	\$ 107,383	\$ 4,215	\$ 111,598
TOTAL ASSETS	<u>\$ 107,383</u>	<u>\$ 4,215</u>	<u>\$ 111,598</u>
LIABILITIES AND FUND BALANCES			
<u>LIABILITIES</u>			
Accounts Payable	-	-	-
Accrued Payroll Taxes	-	-	-
Total Liabilities	-	-	-
<u>FUND BALANCES</u>			
Designated for Building	5,500	-	5,500
Designated for Roof	4,500		4,500
Designated for Other Purposes	2,423		2,423
Reserved for Debt Service	-	4,215	4,215
Unreserved and undesignated	94,960	-	94,960
Total Fund Balances	107,383	4,215	111,598
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 107,383</u>	<u>\$ 4,215</u>	<u>\$ 111,598</u>

The notes to the financial services are an integral part of this report.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

Governmental Funds

Reconciliation of Balance Sheet of Governmental Funds to Net Assets

December 31, 2005

Fund Balances - Total Governmental Funds	\$ 111,598
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the funds.

The cost of capital assets is:	638,922
Accumulated depreciation is:	(120,511)

Long term liabilities are not due and payable
in the current period and are not reported
in the funds:

Bonds Payable	(187,235)
---------------	-----------

Other long term assets not available to pay
current period expenditures therefore
deferred in the funds

-

Accrued interest is not included as a liability
in governmental funds

-

Amounts due to other non-governmental funds
are not reported in the government-wide financial
statements

-

Total Net Assets - Governmental Activities	\$ <u>442,774</u>
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The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended December 31, 2005

	<u>General</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Current Property Taxes	\$ 93,322	\$ 52,879	\$ 146,201
Other Taxes	3,146	1,770	4,916
Penal Fines	19,545		19,545
Fines	1,850		1,850
Sale of Property	727		727
Use of Money and Property	1,680		1,680
Charges for Services	1,485		1,485
Miscellaneous	6,462		6,462
Intergovernmental	5,031		5,031
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	133,248	54,649	187,897
<u>EXPENDITURES</u>			
Current Operating:			
Community Services	119,570	-	119,570
Debt Service			-
Principal		38,628	38,628
Interest and Fees		11,806	11,806
Capital Outlay	7,122		7,122
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	126,692	50,434	177,126
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 6,556	 4,215	 10,771
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
 NET CHANGE IN FUND BALANCE	 6,556	 4,215	 10,771
 FUND BALANCE-BEGINNING OF YEAR	 100,827	 -	 100,827
	<hr/>	<hr/>	<hr/>
FUND BALANCE-END OF YEAR	\$ 107,383	\$ 4,215	\$ 111,598
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

Governmental Funds

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities**

Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 10,771
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities; these costs are allocated over their estimated useful lives as depreciation.	(24,395)
Depreciation Expense	7,122
Capital Outlay	7,122
 Total	 (17,273)

Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds	-
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Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	-
---	---

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long term debt)	38,628
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Increases Decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	-
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Change in Net Assets of Governmental Activities	\$ 32,126
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The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the **Crystal Falls District Community Library** conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

THE FINANCIAL REPORTING ENTITY

The **Crystal Falls District Community Library** (Library) was reorganized in 1989 to provide library services to the City of Crystal Falls, Mansfield Township and Crystal Falls Township, Michigan. The Board operates under an appointed board of trustees and provides library services to its approximately 3,784 residents.

The criteria established by GASB Statement 14, The Financial Reporting Entity, is used to determine the primary government unit and the component units to be included in the financial reporting entity. This Statement describes the characteristics of a primary government unit, which include a separately elected governing board, legally separate government possessing corporate power and separate legal standing, and fiscal independence. GASB 14 also provides criteria for defining the component unit, based on the fundamental concept of accountability. On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the Library.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the local unit, but is so intertwined with the unit that it is, in substance, the same as the local governmental unit.

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government. This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements.

When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

There are no blended component units to be included in the financial statements of the **Crystal Falls District Community Library**.

JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing responsibility.

An ongoing financial responsibility is defined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

There are no joint ventures to be included in the financial statements of the **Crystal Falls District Community Library**.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS

A jointly governed organization is a multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

There are no jointly governed organizations to be reported by the **Crystal Falls District Community Library** as defined above.

RELATED ORGANIZATIONS

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

There are no related organizations to the **Crystal Falls District Community Library** as defined above.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION

The Library follows GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

Management’s Discussion and Analysis

A narrative introduction and analytical overview of the government’s financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Government-wide financial statements

These include financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Government-wide financial statements (Continued)

Accrual accounting also reports all of the revenues and costs of providing services each year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Program Activities.

Statement of Net Assets

The Statement of Net Assets displays the financial position of the primary government.

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net assets of a government are broken down into three categories – 1) invested in capital assets, net of related debt; 2) reserved; and 3) unreserved.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Statement of Program Activities

The statement of activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated by the function (for instance, through user charges or intergovernmental grants).

Budgetary comparison schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest following the actual financial progress of their governments over the course of the year. The Library and many other governments revise their original budgets over the course of the year for a variety of reasons.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules (Continued)

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary governmental entities for which the government is considered to be financially accountable.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the Library as a whole) and fund financial statements. The reporting model focus is on both the Library as a whole and the fund financial statements, including the major individual funds of the governmental categories.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, the governmental columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt obligations. Both government-wide and fund financial statements presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The Library generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The Library may defer the use of restricted assets based on a review of the specific transaction.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The government-wide Statement of Activities reflects both the gross and net cost per functional category (administration, occupancy, special programs, and Library services) that are otherwise being supported by general government revenues (property, state aid, penal fines and interest, and investment earnings). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

The program revenues must be directly associated with the function (administration, occupancy, special programs, and Library services). Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

Taxes and other items not properly included among program revenues are reported as general revenues. The Library does not allocate indirect expenses. The operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

In the fund financial statements, financial transactions and accounts of the Library are organized in the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain regulations, restrictions, or limitations.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The following is a brief description of the specific funds used by the Library:

GOVERNMENTAL FUNDS

These funds are those through which most governmental functions typically are financed.

The acquisition, use, and balances of the Library's expendable financial resources and the related current liabilities are accounted for through the Governmental Funds.

These funds are as follows:

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS (Continued)

General Fund

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit.

Revenues are derived primarily from property taxes and state and federal distributions, grants, and other intergovernmental revenues.

For reporting purposes, the General Fund is always considered to be a major fund.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

There are no special revenue funds for the Library.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS (Continued)

Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

The Debt Service Fund is a major fund for reporting purposes.

The governmental funds use the modified accrual basis of accounting.

Capital Projects Fund

These funds are used to account for the purchase and/or construction of capital facilities by a governmental unit which is not accounted for by Proprietary Funds, Special Assessment Funds, or Trust Funds. The various resources of the governmental unit to be used in the projects, such as General Fund contributions, grants from other units of government and bond proceeds, flow into the Capital Project Fund. Expenditures incurred in the development of the facility are also recorded within the Capital Project Fund.

There is currently no capital projects fund for the Library.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPRIETARY FUNDS

Enterprise Funds

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises----where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose.

There are no proprietary funds for the Library.

FIDUCIARY FUNDS

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Library in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

There are no trust and agency funds for the Library.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statement of net assets and statement of activities are accounted for on a flow of economic resources measurement focus.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets.

The statement of net assets and statement of activities are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements of the General and Debt Service funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term “available” is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue are considered to be measurable and available as revenue when related eligible expenditures are incurred.

Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The local governmental unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purpose only.

It is the Library's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

CASH AND CASH EQUIVALENTS

The Library pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CASH AND CASH EQUIVALENTS

The Library classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

INVENTORIES

Inventories of supplies are expensed as received.

RECEIVABLES

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General Fund.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

INTEREST RECEIVABLE

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

DUE TO/FROM OTHER FUNDS

Transactions between funds that had not been paid or received as of fiscal year-end have been recorded as inter-fund accounts receivable and payable in the financial statements. These inter-fund receivables and payables do not represent Board-approved loans between funds.

DEFERRED REVENUE

Deferred revenue represents amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes. Designated fund balances represent amounts earmarked by the Library for future expenditures.

Unreserved retained earnings represent net assets available for future operations or distribution. Reserved retained earnings represent net assets that have been legally identified for specific purposes. Designated retained earnings represent amounts earmarked by the Library for future expenditures.

BUDGETS AND BUDGETARY ACCOUNTING

The Library follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Annual appropriated budgets are adopted for the general and special revenue funds. Unexpended appropriations lapse at fiscal year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to December 31 of the preceding fiscal year, the Library prepares a budget for the next fiscal year beginning January 01. The operating budget includes proposed expenditures and means of financing them.
2. A meeting of the Library Board is then called for the purpose of adopting the proposed budget after sufficient public notice has been given.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

BUDGETS AND BUDGETARY ACCOUNTING (Continued)

3. Prior to January 01, the budget is legally enacted through passage of a resolution by the members of the Library Board.

Once the budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the Library Board. Amendments are presented to the Library Board at their regular meetings. Each amendment must have Board approval.

PROPERTY TAX

Property taxes are levied on December 31 and payable by February 15 of each year.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPERTY TAX (Continued)

Property taxes are recognized when they become available. The County of Iron purchases all delinquent real property taxes during the second quarter of each year, resulting in total collection of real property taxes each year.

Delinquent personal property taxes are recorded as receivable if considered to be collectible within 60 days of year-end. For the year ended December 31, 2005, the District's taxable valuation was \$ 113,344,903, on which was levied .8943 mills for Library purposes, and .4969 mills for debt retirement.

NON-MONETARY TRANSACTIONS

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS

Capital outlays are recorded as expenditures of the General Fund, and as assets in the governmental-wide statements to the extent the Library's capitalization threshold of \$ 100 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings20 – 30 years

Infrastructure10 - 65 years

Furniture and Other

Equipment5 - 20 years

Land Improvements.....20 years

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS

Donated fixed assets are valued at their estimated fair market value on the date donated. Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

COMPENSATED ABSENCES

Sick Leave

The **Crystal Falls District Community Library** offers no paid sick leave for any employee.

Annual Leave

All permanent part-time Library employees earn paid annual leave proportionate with pay based on the number of hours worked in the anniversary year.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

COMPENSATED ABSENCES (Continued)

Annual Leave

Hours accumulated for the year must be used within that year, and do not carry over to the following year. No annual leave is earned by those employed on a temporary or substitute basis.

The formula for earning leave is as follows:

1 – 3 years of employment – one hour of leave for every twenty six hours worked.

3 – 6 years of employment – one hour of leave for every twenty two hours worked.

6 – 9 years of employment – one hour of leave for every eighteen hours worked.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

COMPENSATED ABSENCES (Continued)

Annual Leave (Continued)

10 years of employment – one hour of leave
for every twelve hours worked.

POST-EMPLOYMENT BENEFITS

The **Crystal Falls District Community Library** provides no
post-employment benefits.

USE OF ESTIMATES

The preparation of financial statements in conformity with
generally accepted accounting principles requires management to
make estimates and assumptions that affect certain reported
amounts and disclosures. Accordingly, actual results could differ
from those estimates.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE B – INTERFUND ACTIVITIES

INTERFUND RECEIVABLES AND PAYABLES

Inter-fund receivables and payables do not represent inter-fund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

There were no Inter-fund receivables or payables for the Library.

OPERATING TRANSFERS

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During the fiscal year ended December 31, 2005, the Library authorized no inter-fund transfers.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE B – INTERFUND ACTIVITIES (CONTINUED)

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various Library funds are budgeted but reported separately from the revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

NOTE C – CASH, DEPOSITS, AND INVESTMENTS

PRIMARY GOVERNMENT

On December 31, 2005, the carrying value of the Library's deposits (Primary Government) was \$ 111,598 and is comprised of cash and deposits reflected in the following funds:

<u>Governmental Funds</u>	
General Fund	\$ 107,383
Debt Service Fund	<u>4,215</u>
Total	\$ 111,598

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

The three levels of risk are as follows:

Category 1

Deposits which are insured or collateralized with securities held by the Library or its agent in the Library's name.

Category 2

Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Library's name.

Category 3

Deposits which are not collateralized or insured.

Based on these levels of risk, the Library's cash deposits (Primary Government) are classified as follows:

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

SCHEDULE OF CASH AND DEPOSITS

PRIMARY GOVERNMENT

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Totals</u>
Cash and Deposits	\$ 100000	\$ -0-	\$ 11598	\$ 111598

INVESTMENTS

The Library's investments are categorized below to give an indication of the level of risk assumed at year-end. **Category 1** includes investments that are insured or registered or for which the securities are held by the Library or its agent in the Library's name.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

SCHEDULE OF CASH AND DEPOSITS

INVESTMENTS (Continued)

Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the Library's name. **Category 3** includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Library's name.

The Library has no investments, as reflected below:

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
	\$	\$	\$	\$	\$
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Investments	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY

Act 196, PA 1997, authorizes the Library to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers acceptance of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1950 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

The Library has adopted an investment policy, allowing for all types of deposits and investments listed above. The Library's deposits and investments are in compliance with its investment policy.

NOTE D – PENSION PLAN

There is no pension plan for the Library.

NOTE E – EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

BUDGET VIOLATIONS

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated. The **Crystal Falls District Community Library's** actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

**NOTE E – EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)**

BUDGET VIOLATIONS (Continued)

The approved budgets of the **Crystal Falls District Community Library** were adopted at the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

In compliance with the provisions of P.A. 621, the total 2005 expenditures did not exceed the final amended budget allocations.

NOTE F – ACCUMULATED FUND DEFICITS

At December 31, 2005, the Library had no fund balance/retained earnings deficit in any fund.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE G – RISK MANAGEMENT

The **Crystal Falls District Community Library** is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Library maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library.

NOTE H – CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended December 31, 2005:

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE H – CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES

	Balance		Balance	
<u>Capital Assets Not Being Depreciated</u>	<u>12/31/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/05</u>
Land	\$ 6000	\$ -0-	\$ -0-	\$ 6000
Total Capital Assets Not Being Depreciated	6000	-0-	-0-	6000
<u>Other Capital Assets</u>				
Buildings	509655	-0-	-0-	509655
Land Improvements	2099	-0-	-0-	2099
Infrastructure	0	-0-	-0-	0
Furniture and Other Equipment	<u>114046</u>	<u>7122</u>	<u>-0-</u>	<u>121168</u>
Total Other Capital Assets	625800	7122	-0-	632922
<u>Less Accum. Depreciation for:</u>				
Buildings	(26681)	(13068)	-0-	(39749)
Land Improvement	(52)	(105)	-0-	(157)
Infrastructure	(0)	(0)	-0-	(0)
Furniture and Other Equipment	<u>(69383)</u>	<u>(11222)</u>	<u>-0-</u>	<u>(80605)</u>
Total Accum. Depreciation	(96116)	(24395)	-0-	(120511)
Other Capital Assets, Net	529684	(17273)	-0-	512411
Total Governmental Activities	\$ 535684	\$ (17273)	\$ -0-	\$ 518411

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE H – CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES (Continued)

Depreciation was charged to governmental functions as unallocated.

NOTE I – LONG-TERM DEBT

NEW LIBRARY

On April 01, 2002, the **Crystal Falls District Community Library** financed the construction of the new Library with the First National Bank of Crystal Falls in the amount of \$325,000.

The note, bearing an interest rate of 5.00%, is payable over 8 years with annual installments of \$50,433.72 beginning April 01, 2003. The final payment will be due on April 01, 2010.

The principal balance of the note on December 31, 2005 was \$187,235.01.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE J – RELATED PARTY TRANSACTIONS

Related parties exist when there is a potential for transactions at less than arm's length, favorable treatment, or even the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business.

However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE K – SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure. They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended December 31, 2005, there were no subsequent events that would have a significant effect on the Library's operations.

NOTE L – COMMITMENTS AND CONTINGENCIES

The Library participates in state and federal grant programs which are governed by various rules and regulations of the grantor agencies.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DECEMBER 31, 2005

NOTE L – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Library has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectibility of any related receivable at December 31, 2005 may be impaired. In the opinion of the Library, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

REQUIRED SUPPLEMENTAL INFORMATION

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

Required Supplemental Information
Budgetary Comparison Schedule – General Fund

Year Ended December 31, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL
<u>REVENUE</u>			
General Property Taxes	\$ 89,000	\$ 89,000	\$ 93,322
Other Taxes	-	-	3,146
Sale of Materials	500	500	727
User Fees	600	600	1,485
Penal Fines	18,000	18,000	19,545
Use of Money and Property	1,500	1,500	1,680
Donations	500	500	4,524
Fines	1,500	1,500	1,850
Other Revenue	1,250	1,250	1,938
Intergovernmental	2,600	2,600	5,031
TOTAL REVENUE	\$ 115,450	\$ 115,450	\$ 133,248
<u>EXPENDITURES</u>			
Salaries and Wages	53,037	55,527	55,462
Payroll Taxes	4,051	4,316	4,316
Books, Videos, Periodicals	29,000	31,461	29,200
Computer System	1,000	1,000	495
Special Programs	1,000	2,200	2,136
Insurance	2,500	2,100	2,084
Supplies	3,800	3,506	3,168
Utilities	6,100	6,800	6,782
Memberships and Dues	3,800	3,800	2,283
Travel and Education	200	350	344
Office Expense	800	800	615
OCLC Expense	100	100	73
Professional Fees	5,000	5,775	5,340
Maintenance and Repair	4,000	5,225	5,148
Telephone	1,200	1,650	1,632
Capital Outlay	5,000	7,194	7,122
Other	600	670	492
TOTAL EXPENDITURES	\$ 121,188	\$ 132,474	\$ 126,692

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

Required Supplemental Information
Budgetary Comparison Schedule-General Fund
(Continued)

Year Ended December 31, 2005

	<u>ORIGINAL BUDGET</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	\$ -	\$ -	\$ -
Operating Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	(5,738)	(17,024)	6,556
FUND BALANCE-BEGINNING OF YEAR	<u>100,827</u>	<u>100,827</u>	<u>100,827</u>
FUND BALANCE-END OF YEAR	<u>\$ 95,089</u>	<u>\$ 83,803</u>	<u>\$ 107,383</u>

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Equity
Actual and Budget

Year Ended December 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	VARIANCE Favorable (Unfavorable)
<u>REVENUE</u>			
Local Revenue			
Current Property Taxes	\$ 93,322	\$ 89,000	\$ 4,322
Other Taxes	3,146	-	3,146
Sale of Materials	727	500	227
User Fees	1,485	600	885
Penal Fines	19,545	18,000	1,545
Interest and Dividends	1,680	1,500	180
Donations	4,524	500	4,024
Fines	1,850	1,500	350
Other Revenue	<u>1,938</u>	<u>1,250</u>	<u>-</u>
Total Local Revenue	128,217	112,850	15,367
State Shared Revenue			
State Aid	3,266	2,500	766
Renaissance Zone	830	-	830
USF Funds	<u>935</u>	<u>100</u>	<u>835</u>
Total State Shared Revenue	5,031	2,600	2,431
TOTAL REVENUE	133,248	115,450	17,798
<u>EXPENDITURES</u>			
Community Services			
Salaries and Wages	55,462	55,527	65
Payroll Taxes	4,316	4,316	-
Books, Videos, Periodicals	29,200	31,461	2,261
Computer System	495	1,000	505
Special Programs	2,136	2,200	64
Insurance	2,084	2,100	16
Supplies	3,168	3,506	338
Utilities	6,782	6,800	18
Memberships and Dues	2,283	3,800	1,517
Travel and Education	344	350	6
Office Expense	615	800	185
OCLC Expense	73	100	27
Professional Fees	5,340	5,775	435
Maintenance and Repair	5,148	5,225	77
Telephone	1,632	1,650	18
Other	<u>492</u>	<u>670</u>	<u>178</u>
Total Community Services	\$ 119,570	\$ 125,280	\$ 5,710

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Equity
Actual and Budget
(Continued)

Year Ended December 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE Favorable (Unfavorable)</u>
Capital Outlay	\$ 7,122	\$ 7,194	\$ 72
TOTAL EXPENDITURES	126,692	132,474	5,782
Excess of Revenues Over (Under) Expenditures	6,556	(17,024)	23,580
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	6,556	(17,024)	23,580
FUND BALANCE-BEGINNING OF YEAR	<u>100,827</u>		
FUND BALANCE-END OF YEAR	<u><u>\$ 107,383</u></u>		

The notes to the financial statements are an integral part of this report.

CRYSTAL FALLS DISTRICT COMMUNITY LIBRARY

Debt Service Fund

**Statement of Revenues, Expenditures, and Changes in Fund Equity
Actual and Budget**

Year Ended December 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	VARIANCE Favorable (Unfavorable)
<u>REVENUE</u>			
Property Taxes	\$ 52,879	\$ 49,400	\$ 3,479
Other Taxes	<u>1,770</u>	<u>-</u>	<u>1,770</u>
TOTAL REVENUE	54,649	49,400	5,249
<u>EXPENDITURES</u>			
Principal	38,628	39,000	372
Interest	<u>11,806</u>	<u>11,806</u>	<u>-</u>
TOTAL EXPENDITURES	50,434	50,806	372
Excess of Revenues Over (Under) Expenditures	4,215	(1,406)	5,621
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer from Other Funds	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	4,215	(1,406)	5,621
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>		
FUND BALANCE - END OF YEAR	<u>\$ 4,215</u>		

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Crystal Falls District Community Library
Crystal Falls, Michigan 49920

We have audited the financial statements of the governmental activities and each major fund of the **Crystal Falls District Community Library**, as of and for the year ended December 31, 2005, which collectively comprise the **Crystal Falls District Community Library's** basic financial statements and have issued our report thereon dated May 05, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting


In planning and performing our audit, we considered the **Crystal Falls District Community Library's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no such matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Crystal Falls District Community Library's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" being more legible than the last name "Rostagno".

Dianne S. Rostagno
DS ROSTAGNO CPA, P.C.

May 05, 2006